Annual Report
1947-48

RED OWL STORES, INC.

Annual Report

RED OWL STORES, INC.

Year ended

March 1, 1948

RED OWL STORES, INC.

GENERAL OFFICES, HOPKINS, MINNESOTA

Board of Directors

FORD BELL	*Wayzata, Minn.*
ALF. L. BERGERUD	*Minneapolis, Minn.*
J. Y. DEAR	*Wayzata, Minn.*
GLENN R. GRIFE	*Minneapolis, Minn.*
J. F. RINGLAND	*Minneapolis, Minn.*
HENRY C. STEPHENSON	*Minneapolis, Minn.*
H. J. WORRELL	*Minneapolis, Minn.*

Officers

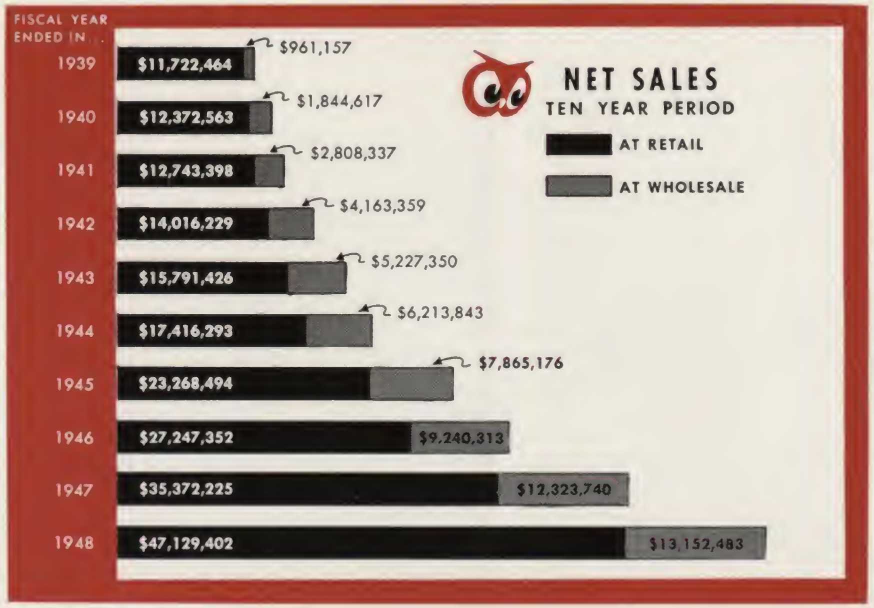
FORD BELL	*President*
GLENN R. GRIFE	*Executive Vice President*
ALF. L. BERGERUD	*Vice President*
J. Y. DEAR	*Vice President*
W. C. METZGER	*Vice President*
H. J. WORRELL	*Vice President*
HENRY C. STEPHENSON	*Treasurer and Asst. Secy.*
L. A. LUDEKING	*Secretary and Asst. Treas.*
RICHARD H. WHITE	*Assistant Secretary*

EXECUTIVE OFFICES: 215 EAST EXCELSIOR AVENUE, HOPKINS, MINNESOTA • MAILING ADDRESS: POST OFFICE BOX 1128, MINNEAPOLIS, MINNESOTA
STOCK TRANSFER AGENT: NORTHWESTERN NATIONAL BANK OF MINNEAPOLIS • AUDITORS: PEAT, MARWICK, MITCHELL & CO.

To the Stockholders of Red Owl Stores, Inc.

THE POLICIES directed toward increasing consumer acceptance and corporate growth reflected in your Company's previous annual report were further implemented during the fiscal year ended March 1, 1948, as the financial statements embodied in this statement will disclose. Two important highlights of the year, which are discussed in detail in later paragraphs of these comments, include opening of the Company's extensive new facilities at Hopkins, Minnesota, a major milestone, and the Company's sixteenth consecutive year of new sales records.

This year's report undoubtedly reflects in varying degrees the problems with which a large segment of American business and American consumers has been faced during the past year. Ever increasing costs have become commonplace to all of us. They have affected Red Owl Stores chiefly in increased costs of merchandise and supplies, rail and motor vehicle transportation, and the higher level of salaries and wages.



• • •

Sales: Sales for the fiscal year ended March 1, 1948, amounted to $60,281,886, representing an increase of $12,585,921, or 26.39%, over the sales for the previous year. Further analysis discloses that the rate of increase for retail sales was 33.24% as compared with 6.73% for sales at wholesale. It is to be expected that the latter will show marked relative improvement, as the opening of our new distribution warehouse at Hopkins now makes possible the servicing of a larger number of agency stores. New outlets of this type are currently being opened at an average of seven per month. This rate of expansion will undoubtedly be continued or increased for some period of time.

Although the gain in sales for the year is largely attributable to higher prices, we believe that our consistent increase in annual sales volume for the past sixteen years must result from customer approval of Red Owl service throughout our operating territory.

• • •

Earnings: Consolidated earnings for the year were $711,384, or $1.64 per share on the outstanding common stock after preferred stock dividend requirements, as compared with $700,291, or $1.75 per share for the preceding year. It must be pointed out, however, that earnings for the year would have been somewhat less than last year had there not been an adjustment in the provision for income taxes as between the two years (referred to in note 7 of the notes to financial statements) and a sharp reduction in the amount of profit sharing participation by employees. The reason for this reduction will be dwelt upon in a later paragraph herein.

Related to sales, the earnings for the year approximated 1.2c out of each sales dollar as against 1.5c the preceding year. This is a direct result of the absorption by the Company of the higher costs previously referred to and, in a sense, represents Red Owl's contribution toward the holding down of food costs to consumers in its territory.

• • •

Dividends: Dividend payments to stockholders totalled $383,746 during the year. Of this amount, $71,250 went to holders of the 4¾% Cumulative Preferred Stock, Series A. The remainder, $312,496, was paid to holders of the common stock in four regular quarterly dividends of 10c per share and

a year-end extra of 40c, making a total for the year of 80c per share.

Because of expanded working capital requirements, also to be discussed later in this message, the directors have pursued a conservative policy in distributing only 49% of common stock earnings. A continuing policy in that respect is indicated.

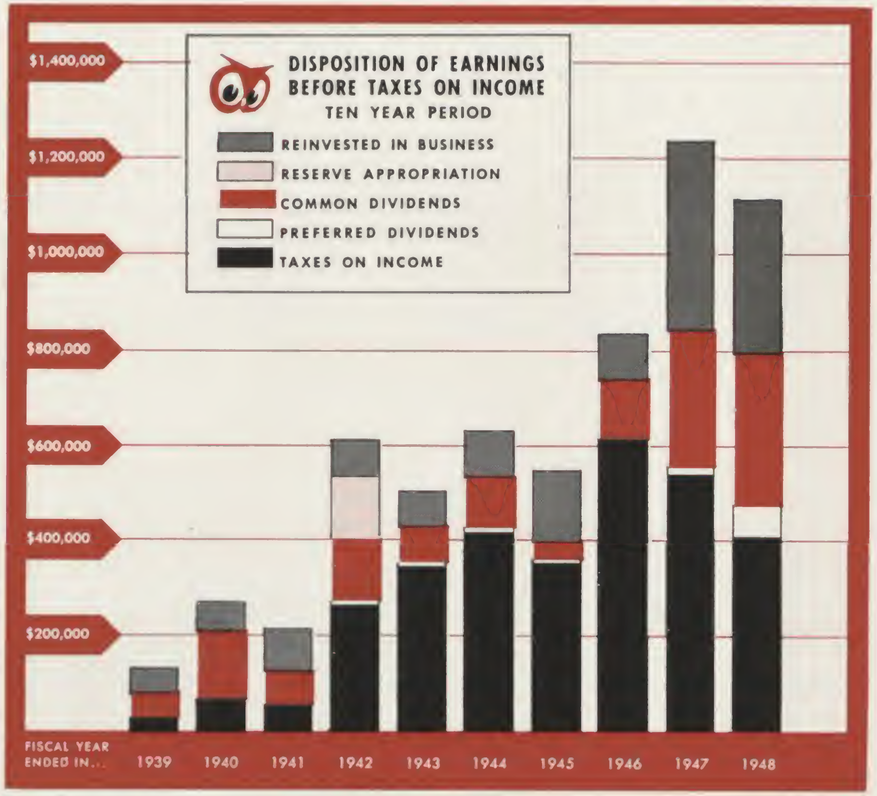
• • •

Inventories: During the year, special attention was directed toward maintaining inventories at the lowest possible level consistent with sales requirements. As a result of this constant effort, investment in inventories increased only slightly during the year, notwithstanding the sales increase of more than 25%. Although still at a high dollar value, the amount at the end of the year, $4,771,477, is regarded as highly favorable in relation to sales. In the event of further increases in food prices, it will become more and more difficult to hold the present dollar investment in inventories and at the same time keep adequate stocks of merchandise on hand in all retail outlets to maintain current high volume of sales. We realize that some losses on inventories must be inevitable when food prices fall. It is our intention to continue vigilant effort, through inventory controls designed for promoting rapid turnover of goods, to keep such losses at a minimum.

• • •

Property, Plant and Equipment: This year witnessed the completion of the warehouse portion of our new structure at Hopkins. Consolidation of all warehousing operations, previously carried on in a number of locations in Minneapolis, within the new building in the late Fall of 1947 greatly facilitated the receiving, storing, and dispatching of merchandise. Although taking place too late in the year to be reflected in lowered warehousing costs (actually costs were increased for a period of several months because of temporary duplication of numerous expenses and charges incidental to moving operations), it is confidently expected that over a period of time substantial savings will result from the greatly improved facilities. Since the end of the fiscal year, the entire structure at Hopkins has reached a stage of completion that has made it possible to relinquish buildings formerly occupied in Minneapolis. All general office personnel was established in its new quarters shortly after the beginning of the new fiscal year even though considerable incidental work remained to be done within the building.

During April of this new year, the successful opening to the public of the

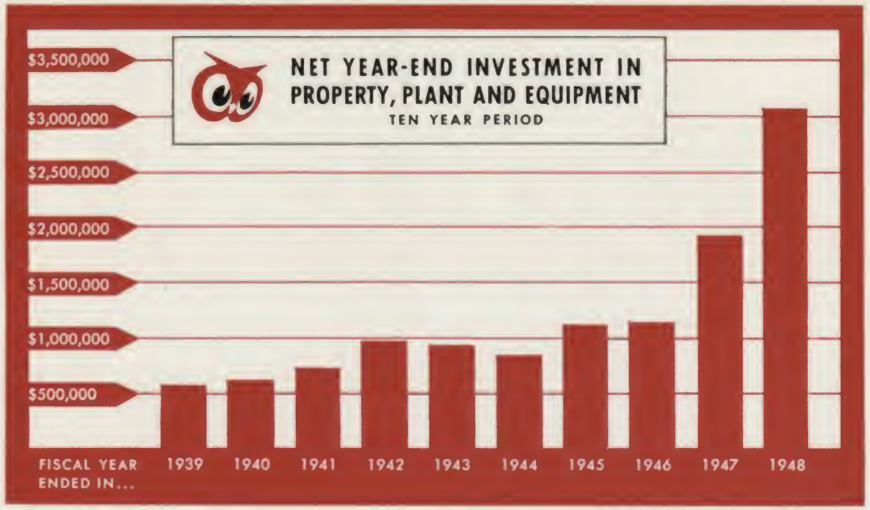


new Red Owl super market, the new Red Owl-Phillips automobile service station, and the new John Ward Restaurant took place with memorable grand opening ceremonies. Operations were also commenced in the new ultra-modern bakery and coffee roasting plant. All of these activities are housed in appropriate sections of the new Hopkins structure, as are also the new garage and fixture manufacturing shop.

In the report to the stockholders last year, it was stated that contracts had been effected for the sale and lease back to the Company of the Hopkins property but that unreimbursed costs of substantial amount would remain on the books of the Company. At the close of the fiscal year, $799,449, appearing in the statement of financial position as "Advances for warehouse building construction," remained due to the Company on the sale of the

property. Investment in the uncompleted building for which no reimbursement will be received amounted to $381,121 on March 1, 1948. This is carried in the statement of financial position as a part of "Leasehold improvements". It is now expected that upon completion of the building, the total unreimbursed cost will approximate $880,000, which will be amortized over the period of the lease.

Notwithstanding the high construction cost, it is confidently expected that the building will implement the future progress of Red Owl Stores through improvement of service and the flow of goods to its retail outlets. The savings in cost to its retail and wholesale operations, which will be made available by the bakery, coffee roasting and other manufacturing and processing activities to be carried on within the building, are expected to be of major significance in this respect. The retail store shows every promise of being highly successful, and the restaurant and service station offer possibilities for attracting new customers, as well as producing additional earnings. Lastly, but of equal importance, the vast improvement in warehouse and general office facilities offers the opportunity for greatly needed efficiency and lower cost of operation which were not possible of attainment in the badly over-crowded former location. This should become even more evident



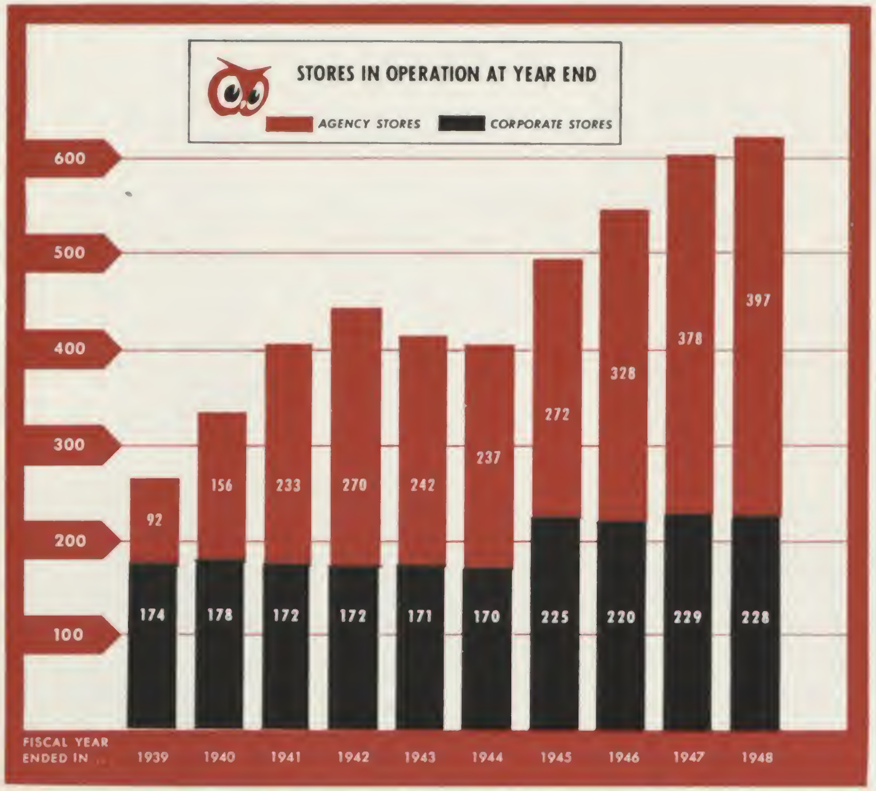
with any further increase of merchandise sold in the Company's retail stores and the expected increase in the number of agency stores serviced from Hopkins.

In addition to the major expansion program now nearing completion at Hopkins, some necessary remodeling and replacement of out-moded stores and replacement of over-age transportation equipment was also effected during the year. In this connection, the Company followed, in general, its practice of recent years of having store buildings constructed according to its specifications but owned by others and occupied by the Company under lease.

This program of expansion, dwelt upon at considerable length herein, resulted in the net investment in property, plant, and equipment reaching a total of $3,062,115 at March 1, 1948. The net increase for the year amounted to $1,146,497. An analysis of this increase follows:

Land		$ 7,581
Buildings, other than unreimbursed cost of Hopkins building		2,689
Furniture, fixtures and equipment		687,014
Automotive equipment		205,556
Construction in progress—retail store building		41,511
		$ 944,351
Less net increase in reserve for depreciation and amortization		214,128
		$ 730,223
Leasehold improvements, net:		
Hopkins building	$381,121	
Other buildings	35,153	416,274
Total net increase		$1,146,497

Except for the expenditure of some $500,000 required to complete the Hopkins building, which will bring the total unreimbursed cost thereof to approximately $880,000 as previously mentioned, no further increase in net investment in property, plant, and equipment is contemplated for some time to come. It is intended that purchases of new and replacement fixtures, equipment, and leasehold improvements will be restricted to the amount of depreciation and amortization charges, together with the proceeds from the sale of disposable land, buildings, and equipment. It is also intended that



the equipping of the new warehouse at Fargo, North Dakota, now being constructed for occupancy by the Company under long-term lease, will be effected by this method during the coming year.

• • •

Financial: The Company's capital needs, growing principally from higher prices for merchandise and from outlays incident to the Hopkins facilities, were met during the year by bank loans which increased by $1,200,000 over March 3, 1947. Reductions in these bank loans will be accomplished as the $800,000 approximate balance due from the purchaser of the Hopkins property is collected within the next few weeks and as sales of other fixed type investments are accomplished. With major improvements of this character now largely effected, a larger proportion of future earnings will be directed toward replenishment of working capital.

• • •

Personnel: The Company is sincerely appreciative of the efficiency, co-operation, and loyalty of its many employees. This group of men and women of Red Owl has long been recognized as comprising the Company's most valuable asset. The conclusion was reached by your Board of Directors to forego in the year just ended any profit sharing distribution to the officers of the parent Company as authorized by the stockholders at their last annual meeting. When the potential operating economies and sales growth from the Hopkins property are more accurately measurable, further consideration to such compensation will be given. In recognition of the desirability of at least partially rewarding the efforts of other employees eligible to receive the distribution, the sum of $28,000 was set aside for this purpose.

The number of employees eligible for entry into the retirement annuity plan increased during the year. The entire cost of the annuity plan is borne by the Company. Group insurance, sponsored by the Company, provides for life insurance and accident, sickness, hospitalization, and surgical benefits for employees, and also hospitalization benefits for dependents of employees. Participation is voluntary on the part of employees, who contribute a portion of the cost of the insurance. The remainder of the cost is borne by the Company.

• • •

We are grateful to our stockholders for their interest in the Company. Their confidence in its operation and their support of its policies over the years is sincerely appreciated.

Dated: June 3, 1948

Ford Bell

PRESIDENT

Red Owl field supervisory staff. These men represent years of experience in food retailing. Red Owl's policy of promoting men from within the organization whenever possible—combined with a sound training program—helps keep employee morale high.

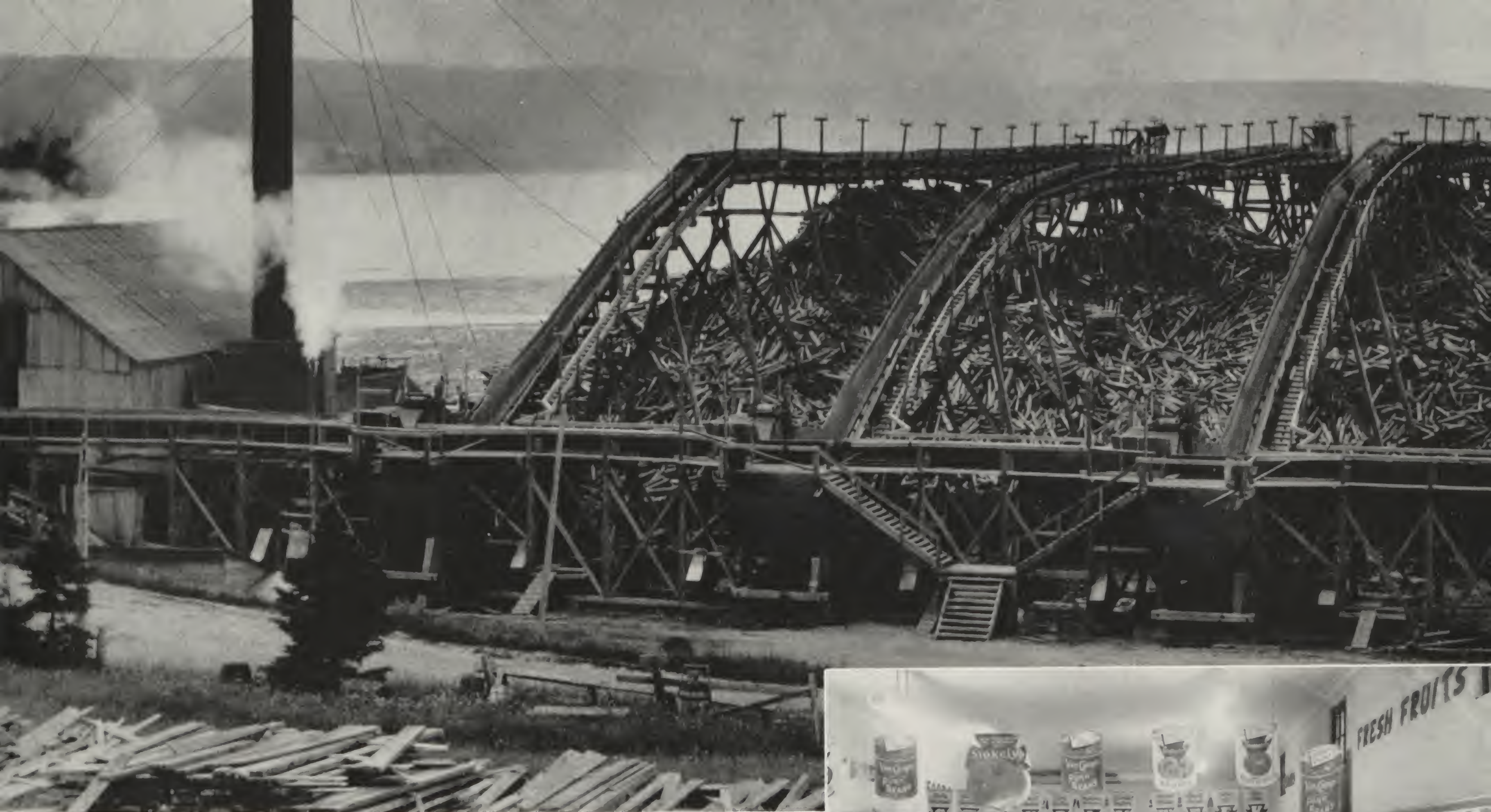
● Shopping scene typical of modern Red Owl Stores. Wide aisles, proper shelf height, position of departments—all planned from continual testing and research to help sell the most goods—give the customer a pleasant and complete food shopping service.

● In the rich farming section of Southern Minnesota and Northern Iowa Red Owl operates 111 stores and Agency stores. Diverse agricultural products of the area gave both farmers and businessmen excellent financial returns last year. Our stores in this area—like the one pictured—attract a good share of food shoppers.

● The Minnesota iron range region supports 114 Red Owl retail outlets. This wealthy area purchases a good share of its food from our stores like the modern glass-block front Red Owl Store pictured. Attractive appearance for every Red Owl Store—inside and out—is an important factor in attracting customers.

● Lush grain regions of Northwestern Minnesota, North Dakota and Montana are served by 186 Red Owl Stores and Agencies. Many of the families in this vast and wealthy area enjoy shopping in our clean, well-arranged stores—such as the one pictured. Note how each one of the food displays is arranged for powerful selling.

● Sheep, cattle and wheat ranchers of South Dakota and Wyoming have 75 Red Owl retail outlets serving them. Good prices for meat and grain have made this area richer than ever during the past few years. Shopping for a large and hungry family is an enjoyable event —as can be seen in the Red Owl Store shown here.



● Pulpwood lumbering and manufacturing districts of Michigan and Eastern Wisconsin are served by 108 Red Owl and Agency stores. Dairying and farming add to the healthy economy of this area. Served by stores like the one pictured, many families in this rich district spend their food money in our Red Owl Stores.

● Prosperous dairy farms in Western Wisconsin and Southeastern Minnesota help support 75 Red Owl Stores and Agencies. Much pure-bred stock, scientific feeding and general good care of herds make this one of the richest dairy sections of the country. Red Owl Stores—strategically located throughout this wealthy region—command much of the food buying business.

● In addition to the 228 Red Owl Stores, owned and operated by us, the company services 397 Red Owl Agency stores owned by independent merchants. This neat store shows that the high standards of Red Owl service are maintained in all Agency stores. Agency store operations during the past year accounted for 17% of our total sales.

● Our new General Offices and Warehouse at Hopkins, Minnesota, opened officially May 3, 1948. A huge bakery, coffee roasting plant, bottling plant, cabinet shop, truck maintenance garage, restaurant and retail store are part of this operation. Warehousing operations are highly mechanized for efficient handling.

RED OWL STORES, INC. AND SUBSIDIARY COMPANIES

Consolidated Results of Operations and Earned Surplus (Earnings Reinvested in Business)

PEAT, MARWICK, MITCHELL & CO.

NEW YORK

ATLANTA	MILWAUKEE
BOSTON	MINNEAPOLIS
CHARLOTTE	NEW ORLEANS
CHICAGO	NEWARK
CLEVELAND	PHILADELPHIA
DALLAS	PITTSBURGH
DENVER	PORTLAND
DETROIT	ST LOUIS
GREENSBORO	SALT LAKE CITY
HOUSTON	SAN FRANCISCO
INDIANAPOLIS	SEATTLE
KANSAS CITY	TULSA
LOS ANGELES	WASHINGTON
MEMPHIS	WORCESTER
CANADA	MEXICO
GREAT BRITAIN	GUATEMALA
EUROPE	COSTA RICA
CUBA	SOUTH AMERICA

NORTHWESTERN BANK BUILDING
MINNEAPOLIS 2, MINN.

July 12, 1948.

Accountants' Report

To the Board of Directors,

Red Owl Stores, Inc.,

Hopkins, Minnesota.

We have examined the statement of consolidated financial position of Red Owl Stores, Inc. and subsidiaries as of March 1, 1948 and the related statement of operations and surplus for the fiscal year then ended, have reviewed the system of internal control and accounting procedures of the companies and, without making a detailed audit of the transactions, have examined or tested accounting records of the companies and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards and included all procedures which we considered necessary in the circumstances.

In our opinion, the accompanying statement of financial position and related statement of operations and surplus, with notes thereon, present fairly, on a consolidated basis, the position of Red Owl Stores, Inc. and its subsidiaries at March 1, 1948 and the results of their operations for the fiscal year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Peat, Marwick, Mitchell & Co.

FOR THE YEARS ENDED MARCH 1, 1948 AND MARCH 3, 1947

	Year Ended March 1, 1948	Year Ended March 3, 1947
Net retail sales	$47,129,402	35,372,225
Net wholesale sales	13,152,484	12,323,740
Other income	83,467	62,029
Total Gross Revenue	60,365,353	47,757,994
Costs:		
Cost of goods sold, including warehousing expenses (note 6)	50,512,975	39,689,298
Selling, general and administrative and other operating expenses (notes 6 and 7)	8,660,762	6,771,454
Interest:		
On long-term debt	48,000	51,000
Other	20,512	9,668
Provision for income taxes (note 7):		
Federal (less $60,697 refund of prior years' taxes in year ended March 3, 1947)	382,450	490,603
State	29,270	45,680
Total Costs	59,653,969	47,057,703
Earnings for Year	711,384	700,291
Deduct dividends on Red Owl Stores, Inc. capital stock:		
4¾% cumulative preferred stock, Series A	71,250	17,417
New $3.00 par common stock ($.80 and $.50 per share in respective periods)	312,496	195,310
Old no par common stock ($1.00 per share)	....	85,154
	383,746	297,881
Earnings for year reinvested in business	327,638	402,410
Earned surplus (earnings reinvested in business) at beginning of year	1,653,248	1,250,838
Earned surplus (earnings reinvested in business) at end of year (note 5)	$ 1,980,886	1,653,248

See accompanying notes to financial statements.

RED OWL STORES, INC. AND SUBSIDIARY COMPANIES

Consolidated Financial Position as of March 1, 1948 and March 3, 1947

ASSETS

	March 1, 1948	March 3, 1947
CURRENT ASSETS:		
Cash	$ 649,164	794,384
United States Government securities, at cost	9,037	9,037
Accounts receivable:		
Customers	584,674	540,523
Due from vendors, claims, etc.	329,366	273,172
	914,040	813,695
Less reserve for doubtful accounts	138,318	130,853
	775,722	682,842
Advances for warehouse building construction (note 2)	799,449	693,378
Advances for merchandise purchases	109,399	88,729
Merchandise inventories at cost, less reserves ($285,000 and $330,248 at the respective dates) (note 3)	4,771,477	4,585,158
Prepaid expenses including at the respective dates prepaid insurance, $33,945 and $27,681, and supplies, $37,580 and $47,083	111,701	111,788
Total current assets	7,225,949	6,965,316
CASH SURRENDER VALUE OF LIFE INSURANCE	17,003	12,240
PROPERTY, PLANT AND EQUIPMENT (at cost, less depreciation):		
Land	227,860	220,279
Buildings including at the respective dates buildings on leased land, $60,885 and $59,076	331,817	329,128
Furniture, fixtures and equipment	2,476,786	1,789,772
Automotive equipment	758,685	553,129
Construction in progress	41,511	....
	3,836,659	2,892,308
Less reserves for depreciation and amortization	1,368,980	1,154,852
	2,467,679	1,737,456
Leasehold improvements, at cost, less amortization	594,436	178,162
	3,062,115	1,915,618
OTHER ASSETS	26,633	11,254
	$10,331,700	8,904,428

See accompanying notes to financial statements.

LIABILITIES

	March 1, 1948	March 3, 1947
CURRENT LIABILITIES:		
Notes payable to banks:		
Current instalments on long-term debt	$ 100,000	100,000
Demand notes	1,600,000	400,000
	1,700,000	500,000
Accounts payable	1,630,014	1,463,235
Dividend payable on preferred stock	17,812	17,812
Accrued expenses	249,798	278,603
Provision for Federal and State income taxes	431,516	569,570
Total current liabilities	4,029,140	2,829,220
LONG-TERM DEBT (Note 5):		
3% notes payable to banks—maturing in instalments of $100,000 each on November 1, 1948 and 1949 (exclusive of current instalments, $100,000)	100,000	200,000
4% notes payable—maturing in annual instalments of $100,000 each commencing November 1, 1950	1,000,000	1,000,000
	1,100,000	1,200,000
RESERVES:		
Contingencies	100,000	100,000
Insurance	115,465	115,751
	215,465	215,751
CAPITAL STOCK (Notes 4 and 5):		
Preferred stock—par value $100 per share:		
Authorized 25,000 shares, issued and outstanding 15,000 shares 4¾% cumulative, Series A	1,500,000	1,500,000
Common stock:		
Par value $3.00 per share:		
Authorized 750,000 shares, issued and outstanding 390,620 shares	1,171,860	1,171,860
	2,671,860	2,671,86
SURPLUS:		
Capital (arising from amounts paid in by stockholders)	334,349	334,349
Earned (earnings reinvested in business), per accompanying statement (note 5)	1,980,886	1,653,248
	2,315,235	1,987,597
	$10,331,700	8,904,428

RED OWL STORES, INC. AND SUBSIDIARY COMPANIES

Notes to Consolidated Financial Statements, Fiscal Year ended March 1, 1948

1. The figures for the year ended March 3, 1947, presented for comparative purposes, have been reclassified to conform with the classification adopted for the year ended March 1, 1948.

2. In accordance with contractual arrangements entered into by the Company and one of its subsidiaries with outside parties providing for construction and sale of the new Hopkins warehouse building and long term lease from the buyer, advances amounting to $693,378 at March 3, 1947, were recovered and advances amounting to $799,449 at March 1, 1948, are recoverable from the purchaser. Expenditures in excess of amounts so reimbursed, including amounts applicable to leasehold improvements, will be amortized over the lease period. Estimated additional expenditures in respect of leasehold improvements amounted to approximately $500,000 at March 1, 1948.

3. Warehouse inventories generally (except Hopkins warehouse) and certain minor departments in the retail stores are based on physical inventories; inventories at retail stores, the Hopkins warehouse and certain public warehouses are based on book inventories which in the case of the retail stores are adjusted to agree with physical inventories taken from time to time during the year and in the case of the Hopkins warehouse to a physical inventory taken at December 31, 1947.

The inventories are stated at cost (first in, first-out basis) determined in the case of the retail stores by the application of mark-up percentages to retail book inventories.

4. The 4¾% cumulative preferred stock, Series A, is redeemable on call and on voluntary liquidation at $107 per share to January 1, 1952, $106 per share from that date to January 1, 1957, and $105 per share thereafter, plus dividends accrued or in arrears to the redemption date. Shares of such preferred stock (taken at $100 per share) are convertible into common stock at the following prices:

$12.50 per share to December 31, 1949.
$14.50 per share from January 1, 1950 to December 31, 1952.
$16.00 per share from January 1, 1953 to December 31, 1954.
$18.00 per share from January 1, 1955 to December 31, 1956 (at which date conversion privileges expire).

In connection with the foregoing, 120,000 shares of authorized and unissued common stock are reserved for issuance upon conversion of preferred stock. The conversion prices are subject to adjustment in certain instances specified in the "Certificate of the Designations, Preferences and Relative, Participating, Optional or Other Special Rights of the 4¾% Cumulative Preferred Stock, Series A, of Red Owl Stores, Inc.," which also sets forth certain restrictions on the issuance of additional shares of preferred stock, increase of funded debt and sale of property.

5. The preferred stock requirements of the certificate of incorporation, as amended, and Board of Directors' resolution authorized thereunder, place certain restrictions upon payments for dividends (other than stock dividends) and for the purchase, redemption or acquisition of common stock (other than from proceeds of sale of such stock); the amount available for such distributions applicable to both common and preferred stock at March 1, 1948, was $730,048.

Pursuant to the agreement relating to the 4% serial notes dated November 1, 1944, an additional amount of $46,657 is available for purchase, redemption or acquisition of preferred capital stock or dividends thereon. The note agreement provides that the long-term debt may be prepaid at the option of the Company at varying premiums and, among other conditions, sets forth certain working capital requirements, which were maintained at March 1, 1948.

6. Charges for depreciation and amortization included in cost of goods sold and operating expenses for the years ended March 1, 1948, and March 3, 1947, amounted to $350,219 and $233,194, respectively, and rent expense so included amounted to $539,364 and $377,006 for the respective periods.

7. Selling, general and administrative and other operating expenses for the years ended March 1, 1948, and March 3, 1947, include provision for profit-sharing for employees, including officers (under plan approved by stockholders June 24, 1947) amounting to $28,000* and $104,794 for the respective periods. The latter amount, accrued at March 3, 1947, was not taken into consideration in the provision for taxes for the year then ended, since there was a possibility that it might be deductible only when paid and the provision for taxes for the year ended March 1, 1948, has been adjusted accordingly.

*Officers of Red Owl Stores, Inc. did not participate in profit-sharing for the year ended March 1, 1948.


MONT.
NO. DAK.
MINN.
MICH.
SO. DAK.
WISC.
WYO.
IOWA
NEB.